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C O N F I D E N T I A L CHISINAU 000272

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E.O. 12958: DECL: 03/12/2018
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SUBJECT: GOM WILLING TO BUY ELECTRICITY FROM TRANSNISTRIA

Classified By: Ambassador Michael D. Kirby for reasons 1.4(b) and (d)

¶1. (C) SUMMARY: Minister of Industry Vladimir Antosii said that the Moldovan Government (GOM) was willing to buy electricity from Transnistria (TN) and that price, not politics, would drive any future decision to do so. Antosii confirmed that Moldova's contract with Ukraine for supplies of electricity remained in force and allowed for a gradual price increase. He also spoke positively about a planned U.S. investment in power generation. We've advised the American investor about the challenges of investing in Moldova. END SUMMARY.

IMPORTS OF UKRAINIAN ELECTRICITY (ASSURED FOR NOW)

¶2. (C) On March 7, econoff met Minister Antosii to discuss a potential U.S. investment in the energy sector and Moldova's energy imports. Antosii confirmed that Moldova's July 2007 agreement with Ukraine on electricity imports, which included a gradual price increase of 0.1 cent per kilowatt hour (kwh) per month, remained in force. He said this agreement gave Chisinau time to increase domestic consumer tariffs and also met Ukraine's demand to (eventually) increase prices to the Ukrainian wholesale price. Antosii expected a consumer tariff increase this summer.

GOM WILLING TO BUY ELECTRICITY FROM TN

¶3. (C) Antosii said the GOM had followed through on commitments to facilitate the export of electricity from the Russian-owned Moldavskaya GRES power plant in Cuciurgan. He noted that the plant was currently producing 350 MW, supplying 250 MW to TN and exporting 100 MW to Romania. Antosii said the plant had the capacity to export more, but cited technical limitations in the transmission lines. When asked about purchasing electricity from Cuciurgan, Antosii said the GOM was open to the idea and that such a decision depended only on price. As long as Ukraine provided electricity at below-market prices, he noted, Moldova would buy from Ukraine.

POSSIBLE AMERICAN INVESTMENT IN POWER GENERATION

¶4. (SBU) Antosii was aware of a Moldovan-American joint venture plan to build a privately owned 120 MW natural gas fired power plant on the grounds of the state-owned utility "CET-1" in Chisinau. He said he had signed a memorandum of understanding with the investors, moving the project through the government bureaucracy and gaining the blessing of the Prime Minister. He expected a government decision approving

the project by the end of March. He added that Moldova's three state-owned power plants were open to foreign investment targeted at increasing existing capacity (not privatizing these assets). He said the return on these investments was guaranteed because current Moldovan legislation required power distributors to purchase all locally produced energy first, and local production only covered about 30% of Moldova's needs.

COMMENT

16. (C) It seems that for now Moldova's contract with Ukraine for electricity supplies remains in place, allowing a gradual price increase to Ukrainian domestic market levels, but keeping prices low. Because of the interconnected transmission systems, Ukraine cannot suspend exports of electricity to Moldova without affecting the Odessa region. The Moldovans understand this and have refused to pay any drastic price increase. We've briefed the U.S. investor about the challenges of doing business in Moldova, noting government interference, corruption and rule of law issues, and specific problems in the energy sector. We've discussed the end of USAID assistance to the national regulatory agency because of a lack of transparency and independence and some of the challenges faced by foreign investor Union Fenosa. The investor commented that Antosii had promised that the GOM could "force" the power-distribution companies to purchase all the electricity generated by the new plant. While such a requirement exists under current Moldovan law, the tone of such statements is worrisome. END COMMENT.

KIRBY